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Internal audit activities in 2002

Summary

Since 1997, the secretariat has presented to the Executive Board an annual report on UNICEF internal audit activities, prepared by the Office of Internal Audit (OIA). The present report covers OIA activities during 2003.

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I. Introduction

1. The Office of Internal Audit (OIA) completed 36 audits in 2002, including two audits at headquarters locations and three global summary reports. Overall, controls in UNICEF were generally satisfactory. No location was found to be unsatisfactory in all audited areas and most country office and headquarters auditees took timely and adequate actions to address both the audit observations issued in 2002 and those that remained open from previous years. The 2002 global summary report on basic programme management controls in country offices includes a number of complex observations that are beginning to be addressed.

2. In 2002, OIA reviewed fund-raising and donor reporting practices as a part of each country office audit. In addition, a summary audit report series was introduced which assembles findings for a specific subject area from a number of country office audits and analyses the underlying issues related to policy, guidance and supervision associated with commonly occurring audit observations.

II. Accountabilities and strategy of the Office of Internal Audit

A. Accountabilities and oversight

3. OIA fulfilled its accountabilities (defined in E/ICEF/1997/AB/L.12) in 2002 through the implementation of an annual office management plan that defined internal improvement priorities, and an audit plan that defined priority locations and issues to be audited during the year. The audit plan was reviewed by the Audit Committee at the outset of the year and at each meeting of the Committee throughout the year.

4. In 2002, OIA addressed nine of the ten recommendations made by the Institute of Internal Auditors in the quality assurance review that was undertaken in November 2001. The recommendations were related to the internal operations of OIA and its interaction with auditees and other oversight services. The actions taken to address the recommendations are included in the following section of the report, along with other important improvements made in OIA operations in 2002. The recommendation to update the OIA charter is being addressed in 2003.

B. Audit strategy and approach in 2002

5. At the beginning of 2002 and based on the previous year's experience, OIA revised the audit guidelines for financial controls, basic programme management controls, cash and supply assistance, contracts for services, and fund-raising and donor reporting, to incorporate developments in UNICEF policy and guidance. To ensure the validity of the audit criteria, the programme management guideline was reviewed by the Evaluation Office, the Division of Policy and Planning and Programme Division, and a version of the guideline was included in the UNICEF Programme Policy and Procedure Manual as a self-assessment tool for use by country offices. OIA also developed an audit guideline for assessment of the Programme Manager System (ProMS) and general information technology management in country offices with input from the Information Technology Division (ITD), which was tested in the India country office.

6. A staff member from the Evaluation Office participated in the audit of the India country office and a staff member from Supply Division participated in the audits of the Angola and Iraq country offices. Their participation provided specialist input to the audits, exposed management staff to audit methodologies and helped to secure a hands-on validation and refinement of the audit guidelines.

7. In 2002, OIA introduced a practice of contracting local audit firms to undertake basic transaction document reviews during country office audits. Each locally-based auditor worked with the UNICEF audit team for approximately one week, using a detailed audit guideline to review a sizeable sample of financial transactions selected by the UNICEF auditors. This approach has had the dual advantage of expanding significantly the number of transactions that could be reviewed during an audit and of freeing the UNICEF audit staff to address higher-level, systems-related issues.

8. To support its expanded attention to headquarters audits, OIA developed and tested a specialized methodology and implementation strategy to strengthen the efficiency and effectiveness of the audit processes, including interaction with management. While the approach did improve the quality of the headquarters' audits, OIA also learned that the implementation of headquarters audits generally requires significantly more time than country office audits, as each audit is unique and requires more time for research and the development of an audit guideline.

9. OIA introduced a new summary report series in 2002, building on the systematic application of standard audit guidelines during country office audits since 2000 and on a new computerized database of OIA audit findings. The summary reports profile one to two years of country office audit findings in a specific subject area, and present an analysis of the underlying policy and guidance issues that are believed to be associated with common patterns of performance across country offices. While three summary reports were completed between 1997 and 2001, the growing body of audit findings and the audit database helped OIA to complete three summary reports in 2002 alone, and they are now a regular feature of OIA reporting.

10. The audit database is also available to regional offices and headquarters divisions so they can undertake their own analyses of common issues and trends in their areas of responsibility. Regional offices also are able to use the database to monitor and comment on the status of actions taken to address audit recommendations in their regions.

11. Since 2001, OIA has used a quantitative risk model to identify country offices to be audited during the year. With two years of empirical data at the end of 2002, it was possible to test the effectiveness of the model. It was found that 62 per cent of the country offices selected for audit in 2001-2002 based on indications of relatively weak programme or financial management performance were ultimately rated as actually having unsatisfactory management practices in these areas. This correlation indicates that the model has assisted OIA to identify offices that are most in need of audits. However, further advances will be made in 2003 to take advantage of the significantly larger range of country office performance data that are now available through UNICEF information systems.

12. To strengthen field offices' awareness of the OIA systems-based audit approach and to better understand how to prepare for and get the most out of a country office audit, an information and discussion session was developed and

implemented at regional meetings of Representatives and Regional Directors in Eastern and Southern Africa and the Americas and the Caribbean in 2002. Sessions were also held during the first half of 2003 in West and Central Africa, East Asia and the Pacific and Central and Eastern Europe, the Commonwealth of Independent States and the Baltic States, so that almost all Representatives have now participated.

13. The 17 OIA auditors come from 11 countries, and while each individual has considerable audit experience, there are often notable differences in audit approaches and practices. To build a common understanding of audit terms and standards, OIA introduced a programme to support staff to secure the Certified Internal Auditor (CIA) qualification. Twelve staff took up the voluntary offer in 2002, and eight completed at least one part of the exam (scheduling conflicts precluded the other four staff from sitting for the exam). One staff member completed the CIA in full in 2002, and also received the Certified Fraud Examiner qualification.

14. The follow-up of audit recommendations and the analysis of auditees' reported actions improved markedly in 2002 through the use of the audit database and regular monitoring within OIA of performance in this area. Advances were also made in how OIA formulates audit recommendations, and guidelines were developed and provided to auditees on how to respond to recommendations. As reported in chapter IV below, these developments have led to significantly accelerated actions by management to address audit recommendations.

15. In 2002, UNICEF hosted the annual meeting of the representatives of internal audit services of United Nations agencies and multilateral financial institutions. At the meeting, the members adopted the new standards for the professional practice of internal auditing established by the Institute of Internal Auditors, including the requirement to have their conformity to the standards assessed at least once every five years. As reported last year, the Institute of Internal Auditors reviewed the performance of OIA in 2001 and found it to be in conformity with the standards.

16. OIA worked with the United Nations Office of Internal Oversight Services (OIOS) in 2002 to audit the submission of separation documents by UNICEF to the United Nations Joint Staff Pension Fund. The audit recommendations supported the implementation of improved processes in UNICEF and contributed to the broader audit work of OIOS related to the Pension Fund.

III. Results of work undertaken in 2002

A. Audit coverage

17. OIA completed 36 audits in 2002 against an original target of 38 (see annex 1 for a list of country offices audited in 2002 and the OIA staff time required to plan, implement and report each audit). Coverage of field offices was higher than originally planned, while only two headquarters audits were completed against an original plan of seven (two other headquarters audits were initiated in 2002 and completed in 2003). This was due to the notable time required to undertake audits at headquarters, the departure of one staff member with a specific technical skill, a

delay in the recruitment of another and insecurity at one regional office location. Four of the headquarters audits were carried over to 2003 and one was cancelled.

18. In 2001, OIA introduced the concept of audit observations as the basic reporting element in its reports. Each observation is comprised of: (a) a risk statement that describes why the finding is important and should be addressed; (b) an assessment statement of what was found in the audit; and (c) one or more recommendations to establish control over the identified risk. This approach shifts the focus from individual recommendations to the higher-level consideration of specific risks to an office's performance, each of which may require the implementation of more than one recommendation to control. The OIA information system and monitoring practices now focus on the number and status of observations. As a transition, the 2002 annual report presents the number of observations and recommendations issued. From 2003, the annual reports will present information on observations only.

Table 1
Audit coverage, 2001 and 2002

	2001	*2002*
Total audits	30	36
Field office audits	27	32
Total risk observations issued in audit reports	732	690
Total recommendations issued in audit reports	1 222	1 403

19. In 2002, OIA introduced a risk rating for each country office audit observation to distinguish the relative importance of each observation. The risk significance ratings are high, medium and low. Low-risk observations generally are presented in a management memo from the audit team leader to the head of the office. Medium- and high-risk observations are issued by the Director, OIA in the audit report. The audit reports also include positive observations, which are issued when all aspects of a particular audited area are found to function fully as expected.

Table 2
Field office audit observations by level of risk, 2002

Audit report	Positive practice	244
	High risk	176
	Medium risk	507
	Low risk	7
Management memo	Low risk	91

20. There are no scientific criteria for determining the risk rating that is assigned to each observation. Each rating is drafted by the audit team's leaders and reviewed as part of the report finalization process by a senior internal auditor and the Director

and the Deputy Director, OIA. The review of all audit observations by three staff with knowledge of the ratings assigned in all audit observations supports the assurance of equitable and consistent application of the ratings across audits. Risk ratings are not assigned to the observations in headquarters audits and summary reports as each audit and observation is unique and there is no basis for comparison.

21. The profile and risk ratings of the several audit observations in each functional area (such as financial controls, cash assistance or consultancy management) lead to an overall risk management rating for each area. This two-tiered rating approach provides information to the auditee and senior management on the relative importance of each audit observation, and the office's overall risk management performance in each major audited area. (See annex 2 for a description of the risk management rating scale, which was presented to the Executive Board in the report covering 2001 (E/ICEF/2002/AB/L.8).)

22. OIA continued to ensure that draft field audit reports were issued and discussed before the team's departure from the audit location. In 2002, the average time to release final reports fell to 15 weeks from 20 weeks in 2001. Based on experience from 2001-2002, and given staff travel schedules and other assignments, it is now estimated that the shortest average finalization cycle that OIA will be able to realize is eight weeks.

B. Field offices

23. The scope of each field audit in 2002 included a detailed assessment of the core control areas of finance and programme management. Additional areas were determined based on a review of the office's performance data to identify areas of high value and potentially significant risk, and annual thematic topics that support the development of summary audit reports. In 2002, most field audits included reviews of cash assistance, fund-raising and donor reporting, and staff and office safety and security. Individual audits also covered other areas that were considered relevant to the circumstances, such as supply assistance and consultancy contracting.

Programme management

24. Thirty-two field audits reviewed the existence and functioning of the basic programme management controls that UNICEF has stated should exist as positive practices to support an office in achieving its programmatic and operational objectives. The existence of these management practices does not assure that an office will achieve its objectives, and weak practices in the audited areas do not assure failure. However, it is reasonable to expect that offices that do have positive practices in the assessed areas have a higher likelihood of overall success than those that do not.

25. Each audit assessed how an office defines and ensures the quality of its annual programme plans; the functioning of the office governance process to maintain attention to its programme and office priorities; management's monitoring of office performance; the functioning of programme monitoring and evaluation systems; staff capacities and training in core programme management skills; and the accuracy of the performance reports presented to headquarters and the regional offices.

26. In 14 of the 32 offices audited in 2002, the overall controls were found to be satisfactory, and 18 offices had unsatisfactory controls. The most common audit observation was related to the quality of offices' annual project plans of action, followed by weaknesses in the use of the established ProMS facilities for monitoring office performance, and the lack of an integrated monitoring and evaluation plan. There were 12 observations issued for weaknesses in the offices' attention to staff training in programme management and/or technical programme skills. Thirteen observations were made about limitations in the quality of Country Management Teams' (CMT) attention to programme issues, and 13 observations were issued to offices that lacked standards and/or guidance to staff on conducting field monitoring visits. (In 2002, a summary audit report was developed based on the findings from 33 field audits completed in 2001 to mid-2002, and a review of the underlying guidance and support issues in UNICEF that have contributed to the profile of findings across field offices. The results of the summary report are presented in chapter III (e) below).

27. The percentage of offices with unsatisfactory ratings in basic programme management controls in 2002 (56 per cent) was higher than the level found in 2001 (18 per cent). There is no clear reason for this difference, and the 13 audits undertaken in the first half of 2003 suggest that the percentage of offices with satisfactory ratings in 2003 may be closer to the level found in 2001. The full profile of ratings from 2001-2003 will be presented in next year's annual report.

Finance and accounts

28. The field audits systematically reviewed the major controls over the commitment, expenditure and recording of UNICEF funds within field offices. Each audit assessed the controls in the assignment and exercise of financial authorities, the functioning of the contract review committee, the processing of payments (for which the number of reviewed transactions was increased significantly in 2002), the safeguarding of financial instruments and records, the logical access to ProMS and management's awareness of the functioning of the financial controls.

29. These controls were reviewed in 32 field locations; 21 offices were found to have satisfactory risk management practices, while 11 offices had unsatisfactory ratings. In some offices, staff with financial control responsibilities showed a weak understanding of their role and how to implement it. In some offices, there were minor inconsistencies between the financial authorities defined by the head of the office and the authorities that are actually established in ProMS. The audits found one or more risks in the payment processing practices of 20 country offices. Fifteen offices had observations related to their bank account reconciliation practices, while 19 offices had observations related to weaknesses in their controls over access to ProMS.

Management of programme inputs (cash, supplies, consultancies)

30. Following an assessment of each office's performance data and reports, discussions with headquarters and regional office staff and interviews within the audited office, OIA examined one or more of the three key means through which the offices plan, commit and procure programme and office inputs: cash assistance; supply assistance; and consultancy contracts.

31. **Cash assistance**. Each audit of cash assistance used an audit guideline based on the financial circular that governs cash assistance to review the planning process for cash assistance to Governments (CAG), the budgeting for specific activities, the disbursement process, reporting on use by counterparts and UNICEF monitoring and assessment of counterparts' use of CAG.

32. In 2002, cash assistance was reviewed in 23 field audits; in 12 offices, controls were found to be satisfactory and in 11 offices, controls were unsatisfactory. Most offices, even those that were rated unsatisfactory overall, maintained reasonable levels of cash assistance that had not yet been liquidated by counterparts. The most common audit observations were related to failures to secure qualitative statements from counterparts on how cash assistance was used, compounded by the offices' own weaknesses in monitoring and assessing CAG-supported activities through field trips. There were also a number of audit observations to address weaknesses in offices' practices to secure acknowledgement of the receipt of CAG funds from counterparts at the time the funds were released.

33. **Supply assistance**. Supply assistance was reviewed in 15 field locations where it was a significant component of the programme of cooperation. The audits followed a detailed audit guideline developed in consultation with Supply Division which supported the systematic assessment of the controls over supply planning, specification development, the identification of suppliers, the contracting process, pre-delivery quality assurance, the receipt of deliveries and assessing the effectiveness of supply assistance.

34. Nine offices were found to have satisfactory control over the range of risks to management of supply assistance. Most of the supply assistance-related audit observations in 2002 were unique to one or two offices. The only observations with a moderately frequent occurrence were weaknesses in the supply planning in four offices and limitations in the offices' knowledge of qualified local suppliers in four offices. The most common observation was related to inadequate assessment of the functioning and effectiveness of UNICEF supply assistance when on field trips.

35. **Contracts for services**. In five of the eight locations where the management of consultancy contracting was assessed, the offices' risk management practices were satisfactory. Each audit assessed the functioning of controls to determine that consultancy support was required; how terms of reference were defined; the processes for identifying potential candidates and selecting from among them; the issuance of contracts; and the supervision and evaluation of consultants' performance.

36. Only three types of risk were found in more than one or two country offices. In three offices, there were weaknesses in ensuring that consultancy services were actually required, and in three offices there were weaknesses in ensuring the competitive and transparent selection of candidates. Three offices also showed limitations in the practices for supervising consultants.

Staff/office safety and security

37. Staff and office safety and security were reviewed in 28 field offices in 2002, using audit guidelines developed with input from the UNICEF Security Coordinator (one guideline for emergency locations and one for non-emergency locations). Each audit assessed the offices' controls for preparedness planning, maintaining the

security of premises and staff residences, access to medical care, emergency telecommunications and security of electronic data.

38. Overall, controls were found to be satisfactory in 25 offices and few weaknesses were found to be common to a number of offices. Inadequately controlled risks that were found with some frequency were outdated security management plans (six offices) and weak attention to medical emergency planning (five offices). There were also weaknesses in some offices' communications with staff when on field visits. (In August 2002, a summary audit report was developed based on the findings from 15 field audits completed between late-2001 and mid-2002, and a review of the underlying guidance and support issues in UNICEF that contributed to the findings at that time. The results of the summary report are presented in chapter III (e) below).

Fund-raising and donor reporting

39. In late 2001, OIA introduced an audit guideline, developed with input from the Programme Funding Office (PFO), for the systematic review of country offices controls over fund-raising, the management of other resource contributions and reporting to donors on the use of funds. Of 26 offices assessed in 2002, 14 were found to have satisfactory controls and 12 had unsatisfactory controls.

40. Some offices did not have clear strategies on how they planned to raise funds for their country programmes, and/or had not assigned fund-raising responsibilities among staff. Most offices maintained adequate awareness of the donor funds they had received and used the funds before the expiration dates for all contributions. However, some offices were not good at monitoring the status of their contributions and failed to use the existing ProMS facilities available to them for this purpose.

41. Most of the 12 unsatisfactory ratings in this area were issued due to significant weaknesses in offices' controls over donor reporting. While the quality of the reports generally was found to meet the established UNICEF standards, the timeliness of reporting was a common problem, due to inadequate monitoring by office management and unclear assignment of responsibilities among staff. (In 2002, a summary of the audit issues identified in the 26 field audits was included in the audit report of fund-raising and donor reporting, which noted the underlying support issues in UNICEF that contributed to the findings. The summary results are presented in chapter III (d) below).

C. Analysis of audit findings: underlying causes from field offices

42. All audit observations are classified by OIA according to an internationally recognized control framework to establish an understanding of the underlying issues associated with the audit findings. The following table shows that over 70 per cent of the control weaknesses identified in 2002 were due to a lack of defined procedures, unclear assignments for responsibilities among staff, weak monitoring by management of existing procedures or weak implementation of established procedures by staff. The remaining 30 per cent of underlying causes are disbursed among 12 other classifications.

Table 3
Major underlying causes of field audit observations, 2001-2002

Reason for weaknesses in risk management practices	*Percent of total*
Lack of defined procedures	26
Weak monitoring of the control by office management	16
Poor-quality implementation of defined procedures	16
Unclear assignment of responsibilities	14

43. As in 2001, a number of field offices lacked defined procedures and standards in 2002 for field monitoring, which affected programme management and cash and supply assistance, and contributed to the unsatisfactory risk management ratings in these areas. In response to this common weakness, global guidance on field visits was introduced in the 2003 revision to the Programme Policy and Procedure Manual. The 2002 audits also found that some offices lacked procedures for controlling staff access to the facilities for modifying the lists of suppliers and payees in ProMS. OIA is now working with ITD to demonstrate the specific weaknesses in the system controls.

44. The audits also found a number of offices where management was not making adequate use of the monitoring facilities available in ProMS to maintain awareness of the status of office performance. Inadequate internal monitoring is directly associated with the poor-quality implementation of established procedures, which was found in one or two areas in many country office audits.

45. Weaknesses in the clarity of responsibilities were generally associated with minor differences between the staff financial control responsibilities defined by the Representative, and the actual staff responsibilities that were found in ProMS at the time of the audit.

D. Headquarters locations and systems audits

Submission of separation documents by UNICEF to the United Nations Joint Staff Pension Fund

46. The audit was implemented in coordination with OIOS. The audit found that the remittance of pension contributions by UNICEF to the Pension Fund is satisfactory. However, 50 per cent of staff who separated from the organization between January 1999 and June 2001 experienced an interval of six months or more from the time of their separation until all of their relevant documents were submitted by UNICEF to the Pension Fund, leading to the late commencement of pension payments to former staff. Weaknesses in communication to separating staff on their documentation requirements, and lack of clear procedures within UNICEF and between UNICEF and the United Nations Termination Unit for addressing instances of incomplete or inadequate documentation, were the underlying causes for the extended intervals. Management's actions to address these risks are reported in paragraph 61 below.

Other resources fund-raising from Governments, contribution management and donor reporting by PFO, the Division of Financial and Administrative Management (DFAM) and field offices (combined audit and summary report)

47. The audit report presented the findings from an audit conducted in PFO and DFAM and the results of 26 field audits of fund-raising and donor reporting done in 2002. The audit found that there were satisfactory processes in place with in PFO for other resources fund-raising from Governments; for the management of received contributions in PFO, DFAM and country offices; and for the fulfilment of reporting obligations to donors by DFAM and PFO. There are, however, weaknesses in the timeliness of donor reporting by country offices and the controls to assure report quality, and there are weak processes within UNICEF to monitor the status of late reports and secure action from delinquent heads of offices. The audit also found that a high percentage of programme budget authorizations are amended annually to extend the initial expiration date, the reasons for which are complex and often justified, but which leads to considerable administrative processing.

E. Summary audit reports

Basic programme management controls in country offices

48. The summary audit report profiled the state of basic programme management controls in 33 country offices audited during 2001 and through mid-2002. Generally, most of the audited field offices applied the basic aspects of the expected management controls. They developed annual project plans of action, generated the performance management indicators agreed within their regions, had a CMT that met regularly and developed an annual staff training plan. However, most offices did not clearly define what the annual plans actually sought to accomplish because the objectives were often poorly defined. While CMTs existed, most did not address issues of overall programme coordination. In most offices, staff training activities generally focused on computer skills, budget management and language training. Few offices had and/or used integrated monitoring and evaluation plans and even fewer had set standards for the frequency of and what to look for during field visits to UNICEF-supported activities.

49. The audit found that the underlying causes for the gap between expectations and the actual practices were weaknesses in staff support and performance monitoring within field offices and by the regional offices. In general, clear guidance had been issued by UNICEF, except for CMT management, standards and guidance for field visits and integrated monitoring and evaluation plans, yet staff in many offices were often not aware of and/or not following the existing guidance.

Staff and office safety and security in country offices

50. The audit summary report profiles the status of staff and office safety and security preparedness in 15 UNICEF field offices audited from late-2001 to mid-2002. Fourteen of the audited offices had satisfactory risk management practices. However, some uncontrolled risks were found in a number of field offices, including weak familiarity of UNICEF staff with security procedures and facilities, weak communication with staff while on in-country travel and weaknesses in offices' physical security and contracted guard services.

51. An analysis of the 15 audit reports found that weaknesses in the guidance to country offices for safety and security, and the need for inter-agency cooperation to establish and maintain effective controls, were the common underlying factors that contributed to a number of the identified risks. As reported in paragraph 62 below, these underlying factors are being addressed by management.

F. Investigation support

52. In 2002, OIA reviewed investigation issues reported by six country offices. The issues were not of material significance and as a result, OIA did not visit the locations, but did advise on the implementation of the investigations and reviewed the documentation and the actions taken to address the identified control weaknesses.

IV. Implementation of recommendations by management

53. In 2002, auditees demonstrated a significant advance over recent years in the timeliness and completeness of the actions taken to address audit recommendations. This change follows modifications made by OIA in the structure and clarity of its recommendations, and revamped mechanisms for informing auditees of the status of their recommendations and regularly informing headquarters senior management and the Regional Directors about offices with outstanding recommendations. The improved status information stimulated most auditees to act on their own, but the few delinquent offices were requested by management to address their outstanding recommendations.

54. OIA generally relies on country offices' own implementation reports to assess the status of actions taken to address the audit observations. Follow-up audits are sometimes undertaken when the audit has found notable problems, but no follow-up audits were done in 2002. However, in 2002 each country office audit implemented in an office which had had a previous audit in the past three years reviewed the status of the previous recommendations and assessed the accuracy of the offices' implementation reports. Such reviews were undertaken in 23 audits, and in 21 offices it was found that the recommendations had been implemented as stated. Based on this finding, OIA concludes that country office reports accurately state the status of the actions they have taken.

Country office audits implemented in 1999-2001

55. Virtually 100 per cent of the over 4,000 recommendations from 1999 and 2000 have been addressed and are closed, while 95 per cent of the recommendations issued in 2001 have been addressed and are closed.

56. The OIA report for 2001 noted that 10 field offices audited that year had received more than one unsatisfactory rating. Among those 10 offices, all observations have now been adequately addressed and are now closed in seven offices. In the three remaining offices, more than 90 per cent of the observations are controlled and closed. The remaining recommendations have been reviewed by OIA, and are not of significant risk to the offices or UNICEF at large.

Country office audits implemented in 2002

57. As presented in the OIA report for 2001 (E/ICEF/2002/AB/L.8), no office audited that year had secured full implementation of its recommendations by the end of June 2002. In comparison, by the end of June 2003, seven offices audited in 2002 had established adequate control over all risks identified in their audit reports. More broadly, among all of the offices audited in 2002 that were due to report the status of their actions by mid-2003, 73 per cent of the observations were addressed and closed.

58. Among the offices audited in 2002, the general pattern has been that actions are taken in the first three months of the release of the final report to address adequately 60 to 75 per cent of the audit observations. The balance of observations are addressed in the following three to six months.

59. High-risk observations typically call for the most urgent action. For the 2002 audits, as of mid-June 2003, country offices had established adequate control over 75 per cent of the high-risk observations within the first three months, and country office reports showed that the balance of observations were being addressed. No high-risk observation was not being addressed in some way by the end of the first three-month reporting period.

Headquarters audits implemented before 2002

60. In 2002, UNICEF management made good advances in addressing the recommendations from headquarters audits implemented in prior years. The Division of Human Resources developed a detailed revision of the guidance on consultancy management and has circulated it to relevant divisions through several rounds of comments. When issued, it will address all the open recommendations related to the 1999 audit of consultancy contracting. DFAM has developed new guidelines for the management of the bank reconciliation process in country offices, which will be issued in conjunction with the release of ProMS version 4.0, which includes several new features for country office bank reconciliation management. Supply Division has taken actions that have led to the closure of all but one of the 24 observations issued in the 2001 audit of its procurement operations. Actions have been taken to address the risks identified in the 2001 audit of the Financial and Logistics System covering security, authorization and interfaces.

Headquarters audits implemented in 2002

61. The responsible headquarters divisions have taken timely action to address four of the five observations in the audit of UNICEF submissions to the United Nations Joint Pension Fund. The one open observation is under implementation. Due to delays within OIA, the audit report of other resources fund-raising from Governments and donor reporting was not finalized and released until mid-2003, so a report from management on implementation actions was not due at the time the present report was prepared.

Summary audit reports issued in 2002

62. The summary audit report on staff and office safety and security was issued in August 2002, and management has taken actions at headquarters and in field offices to strengthen attention to security and safety issues. Sixty per cent of the recommendations in the report are closed and the remaining recommendations are in progress. In several instances, the open recommendations are related to the achievement and monitoring in country offices of the Minimum Operational Security Standards issued by the Office of the United Nations Security Coordinator, and it is recognized that full implementation will require additional time. Other open recommendations require inter-agency or interdivisional policy reviews, which are under way.

63. The summary audit report on basic programme management controls was issued in December 2002. The report's 12 observations were presented to several headquarters divisions and to the regional offices. There is considerable variation in the complexity of actions needed to address the observations, and most of the observations propose coordinated actions by headquarters and regional offices. Two recommendations were implemented within weeks of the issuance of the report, and management addressed a number of the recommendations related to improvements in programme guidance in the 2003 revision of the Programme Policy and Procedure Manual.

64. . However, a number of the recommendations are related to the roles and responsibilities of the regional offices and the relationship between the regional offices and headquarters for monitoring the state of programme management in country offices. These are complex issues and will require time to address. In 2003, management initiated a global review of the UNICEF structure of accountabilities, which is expected to address a number of the issues presented in the audit.

V. Standards of internal control within UNICEF

65. Based on the field and headquarters audits implemented in 2002 and a review of the actions reported by headquarters and field office management to address the audit recommendations issued between 1999 and 2002, it is the conclusion of OIA that overall, UNICEF maintained generally satisfactory control systems for the planning, commitment and expenditure of UNICEF resources, and for the implementation of the organization's role in country programmes of cooperation.

66. In 2002, there was a high prevalence of unsatisfactory risk management practices in basic programme management, cash assistance and fund-raising and donor reporting. However, the field offices audited in 2002 have demonstrated timely and considerable action to address the risks identified in the audit reports. If all other conditions remain as before, the offices' risk management practices are now satisfactory in most areas covered by the field audits implemented in 2002.

Table 4
Summary of risk management ratings by audited area for field offices, 2002

	Offices audited	*Unsatisfactory*	*Satisfactory*	*Exemplary*
Finance	32	11	21	0
Basic programme management	32	18	14	0
Cash assistance	23	11	12	0
Supply assistance	15	6	9	0
Consultancy management	8	3	5	0
Fund-raising and donor reporting	26	12	14	0
Staff safety and security	28	3	25	0

67. Some but not all weak management practices identified in the field audits in these areas are common to a number of offices. While the accountability for satisfactory field office performance rests with the Representatives, broad-based improvements in the profile of country office practices in those areas will require advances in the support and supervision from the regional offices and procedural guidance from headquarters.

68. UNICEF has already addressed one half of the 2002-2003 audit recommendations for staff and office safety and security. Most of the guidance related to field offices' programme management practices has been addressed and the support and supervision issues are under consideration. The guidance, support and supervision issues related to late donor reporting are being addressed under the coordination of PFO.

69. In 2002, headquarters divisions established adequate controls over the risks identified in the audits of headquarters functions and global systems undertaken in 2001.

Annex 1

Field audits completed in 2002 and estimated audit staff-person-days per audit

Audit	Standard preparation period	Actual days in the field	Standard finalization period	Actual editing days	Total estimated person-days
Afghanistan	15	60	15	9	99
Angola	15	60	15	7	97
Azerbaijan	10	30	10	8	58
Bhutan	5	15	5	5	30
Brazil	10	40	10	6	66
Cambodia	10	34	10	6	60
China	15	60	15	5	95
Congo	10	40	10	5	65
Equatorial Guinea	5	6	5	7	23
Eritrea	15	60	15	5	95
Ethiopia	10	40	10	4	64
Gabon	5	15	5	7	32
Haiti	10	40	10	6	66
India	15	87	15	14	131
Iraq	15	80	15	8	118
Lao People's Democratic Republic	10	40	10	7	67
Lebanon	10	30	10	5	55
Lesotho	10	20	10	3	43
Malaysia	5	11	5	3	24
Mexico	10	40	10	5	65
Morocco	10	28	10	3	51
Nepal	10	23	10	10	53
Nigeria	15	72	15	5	107
Papua New Guinea	5	11	5	4	25
Peru	10	30	10	7	57
Sao Tome and Principe	5	10	5	4	24
South Africa	10	46	10	3	69
Timor-Leste	10	40	10	6	66
Turkmenistan	10	26	10	4	50
Turkey	10	40	10	9	69
Ukraine	5	15	5	7	32
Uzbekistan	10	20	5	5	40

Annex 2

Risk management ratings applied to each audited functional area

1. Each audit report includes risk management ratings that summarize the OIA view of the quality of an office's risk management practices in each of the audited areas. OIA does not consolidate its views into a single rating of an office's overall performance, as one rating would mask the complexities and differences in the various areas covered in a typical audit. Unsatisfactory ratings do not indicate a supposition of fraud or loss of UNICEF resources. Rather, they indicate that the office's controls over one or more risks to the achievement of its programme and/or procedural and compliance objectives were seriously weak and should be strengthened.

2. OIA uses a three-point scale to rate an office's risk management practices in each audited area:

Exemplary: All controls function as expected and no uncontrolled risks were identified.

Satisfactory: All aspects are generally functioning well. However, one or more medium- (and in some instances high-) level risk was identified that limits the office's potential for achieving the performance and/or compliance objectives of the audited area.

Unsatisfactory: A number of high- or medium-level risks were identified. The frequency and importance of the risks indicate weaknesses in the office's risk management practices that significantly reduce its potential to achieve its performance and/or compliance objectives of the audited area. Priority attention is required by management to establish effective controls.

3. Satisfactory and unsatisfactory risk management ratings are not determined by the specific number of medium- and high-risk observations issued in an audit. However, offices with an elevated number of observations are more likely to receive an unsatisfactory risk rating.

4. Consistency and quality assurance of the risk management ratings are maintained through a review of each audit observation (described in paragraph 20 above) and the review of each risk management rating by a senior internal auditor and the Director and the Deputy Director, OIA. Risk management ratings are issued by the Director, and are only given when the audit has completed adequate coverage of an area to be able to form an overall opinion. In 2002, there were three instances out of 185 audited areas in country office audits where ratings were not given due to limited coverage.